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FINANCE COMMITTEE
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Item No. 8 on the Agenda: Report of the Secretary-General on the implementation of the new compensation and social security scheme applicable to UNIDROIT staff

(prepared by the UNIDROIT Secretariat)

Summary	*Update regarding the implementation of the new compensation and social security package offered to UNIDROIT staff*
Action to be taken	*To take note of the update regarding the implementation of the compensation and social security reforms and next steps*
Related documents	UNIDROIT 2019 – F.C. (87) 7; UNIDROIT 2019 – F.C. (87) 9; UNIDROIT 2019 – C.D. (98) 15(b)); UNIDROIT 2019 – A.G. (78) 10; UNIDROIT 2019 – A.G. (78) 12

INTRODUCTION

1. Following an extensive review, at its 83rd session (Rome, 21 September 2017), the Finance Committee recommended the adoption of important compensation and social security reforms, which would improve UNIDROIT's sustainability by enhancing staff mobility and ensuring that UNIDROIT was an attractive workplace.[1] At its 76th session (Rome, 7 December 2017), the General Assembly adopted those reforms, together with the necessary revisions to the UNIDROIT Regulations. The General Assembly further provided the Secretariat with flexibility in the timing of their implementation, which would be reviewed by the Finance Committee. Since that session, the Secretariat implemented the compensation reforms in February 2018 and implemented the social security reforms in September 2019.

2. The Secretariat has delivered updates in these respects to the Finance Committee at its 84th and 85th sessions (Rome, 15 March 2018 and 4 October 2018), as well as to the General Assembly at its 77th session (Rome, 6 December 2018). Additional updates were delivered to the Finance Committee in April and October of 2019 (86th and 87th sessions) as well as to the Governing Council at its 98th session (Rome, 8-10 May 2019) and to the General Assembly at its 78th session (Rome, 12 December 2019). The following provides a further update regarding implementation of the compensation and social security reforms.

[1] UNIDROIT 2017 – F.C. (83) 9, Item No. 9.

I. IMPLEMENTATION OF THE COMPENSATION AND SOCIAL SECURITY REFORMS

A. Compensation

3. Since the 76th session of the General Assembly, the Secretariat has continued to keep the Finance Committee, General Assembly, and the Governing Council apprised of the procedure used to implement the reform.

4. At the Finance Committee's 86th session (Rome, 4 April 2019), the Secretariat provided the Finance Committee with a chart comparing net salaries for all categories and grades across common family situations. At that session, the Finance Committee requested a detailed explanation of the methodology which had been utilised in the preparation of the Chart, including the date on which the currency rates had been calculated, and the applied multiplier for post adjustment payments.

5. Regarding compensation for General Service Staff, the Secretariat notes that the chart calculations are based on the net salaries provided by the United Nations applicable to General Service Staff posted in Rome, as published on 1 April 2018 (available at the following link: https://www.un.org/Depts/OHRM/salaries_allowances/salaries/italy.htm). As the salaries are already provided in Euro, no post adjustment multiplier applies.

6. Regarding compensation for Professional Staff and higher categories, the Secretariat would recall that the table was prepared on the basis of the net salaries provided by the United Nations applicable to Professional Staff and Higher Categories provided by the International Civil Service Commission (ICSC) as of 1 January 2019 (available at the following link: https://icsc.un.org/Home/GetDataFile/5497). The post adjustment multiplier for duty station Rome, along with the applicable official UN rate of exchange (from USD to EUR), were likewise taken as at 1 January 2019 from the ICSC website (available here: https://icsc.un.org/Resources/COLD/PostAdjustmentReports/History/pah_frm.htm), respectively 34.6 and 0.871.

7. Further details regarding the United Nations methodology for surveys at duty stations other than Headquarters is available on the ICSC website (https://www.un.org/Depts/OHRM/salaries_allowances/salaries/icsc2012.pdf).

8. The Finance Committee, at its 87th session (Rome, 10 October 2019), considered the information provided on the comparative methodology to be adequate and sufficient.

B. Social Security Reforms

9. In September 2019, the Secretariat completed the process of implementation of the new pension plan and health coverage, and hereby provides the following updates:

- *Pension Fund*: The Secretariat has held several calls with the International Service for Remunerations and Pensions (ISRP)[2] to negotiate the annual administration fee of the fund, which, in its orginal proposal, was quoted at a minimum of €23,000.[3] In light of UNIDROIT's unique position in terms of number of staff and initial contributions, the ISRP proposed terms that would ensure sustainability of the fund, based on conservative assumptions, as well as a lower rate of administration fees. At a first stage, the ISRP proposed to place the incoming contributions in a collections account, yielding a low return but bearing no financial risk (i.e. preservation of capital). In its second phase of implementation, when the fund reaches a threshold amount

[2] ISRP is a common service platform for both the six Co-ordinated Organisations (NATO, ESA, EUMETSAT, ECMWF, Council of Europe, OECD) and Associated Organisations), providing services for their pension schemes and remuneration policies.

[3] In addition to that fee, there would also have been an annual asset management fee of 0.20-0.25% of the managed assets.

(estimated at €500,000.00), expected to occur by Year 3 according to projections, the assets would move towards a full Strategic Asset Allocation (SAA), implemented through selected mutual funds, and expected to return 5.05% per year (nominal) over the long term. In light of the limited reporting costs this sort of arrangement would entail, the ISRP offered to waive those costs and retain only an annual fee reflecting 0.5% of the assets (minimum of €12,000), plus the fees owed to the Secretariat of the Committee for the Administration of Funds (equal to €6,461.60) for the first three years. In light of these important developments, the Secretariat, as reported at the 87th session of the Finance Committee, signed the Memorandum of Agreeement with the ISRP, effective as of 1 September 2019.

- *Report of the CAF*: Further details regarding the management of the pension fund are available in the Report of the ISRP – CAF (Committee for the Administration of Funds) (Annexe I). The Report covers access to investment vehicles (mutual funds and saving accounts), simulation of fund flows and methodological aspects, investment recommendation, and procedures for treasury management during the first investment period, and also contains a proposal which was submitted to and approved by the Governing Council (see action to be taken under para 10 below):
- *Health Insurance*: Having obtained a favourable quote from AXA, an insurance provider that has improved coverage compared to the Allianz "Silver" quotation adopted by the General Assembly, at a lower cost, and not having obtained any update or counter offer from Allianz, the Secretariat has finalised the conditions of coverage for those staff members that have chosen to opt into the new system with AXA. The final Insurance Policy, in effect as of September 2019, was presented to the Finance Committee at its 87th session and approved by the General Assembly at its 78th session.

II. ACTION TO BE TAKEN

10. *The Secretariat requests that the Finance Committee take note of this update regarding the implementation of the new compensation and social security scheme applicable to UNIDROIT staff. The Finance Committee is also requested to take note of the proposal made in the Report of the ISRP – CAF (Committee for the Administration of Funds)* (**Annexe I**)*, and to provide its views and approval of said proposal.*

CAF PROPOSAL APPROVED BY THE GOVERNING COUNCIL:

1. The CAF proposes to the Governing Council of UNIDROIT to retain the proposal made in this document to proceed with the investment of the Fund in two stages, i.e. to initially invest the incoming contributions to the Fund in treasury until the Fund reaches EUR 500k, and in a second stage move the assets towards a portfolio invested in financial markets. The strategy to adopt in this second stage will be presented for approval in due time before this change.

2. The treasury investments of the first stage shall comply with the policy described in the Procedures for Treasury Management set out in this document.

ANNEXE I

ISRP – CAF (COMMITTEE FOR THE ADMINISTRATION OF FUNDS)
UNIDROIT – REPORT TO THE GOVERNING COUNCIL

CONFIDENTIAL

CAF/WD(2020)14 **March 2020**

COMMITTEE FOR THE ADMINISTRATION OF FUNDS
UNIDROIT – REPORT TO THE GOVERNING COUNCIL

COMMITTEE FOR THE ADMINISTRATION OF FUNDS
UNIDROIT – REPORT TO THE GOVERNING COUNCIL

BACKGROUND

1. UNIDROIT has expressed its will to fully externalise the administration of its Pension Reserve Fund (PRF) assets to the International Service for Remunerations and Pensions (ISRP), and joined the Committee for the Administration of Funds (CAF) on 1 September 2019.

2. Contrary to the other Organisations' Funds the ISRP currently administers, UNIDROIT's PRF is a new Fund with no assets at inception and a very limited number of participants to the Plan[1], who are subject to three-year renewable contracts, with exception of the Secretary-General who has a five-year renewable contract. This implies that the evolution of the PRF's assets during the very first years will be sensitive to staff turnover, and hence to relatively important outflows in the form of leaving allowances. Taking these unique aspects into consideration, the ISRP made a proposition to UNIDROIT that was accepted with the objective of starting the activity as from end-September 2019. This starting date was important for the implementation as UNIDROIT would start sending the first contributions at that date.

3. This document summarises the main aspects and rationale of the proposal.

A. ACCESS TO INVESTMENT VEHICLES: MUTUAL FUNDS AND SAVING ACCOUNTS

4. The access to investment vehicles with favourable fee conditions is a key challenge for a Fund with very limited assets. The ISRP therefore contacted the asset managers and bank counterparties it currently works with and obtained the following:

- All the asset managers contacted agreed in principle to exceptionally waive the minimal investment subscription requirement, usually set at EUR 1 million for mutual funds, to allow for small investments in the vehicles currently used by the other CAF organisations. This would give the UNIDROIT Fund access to institutional fund share-classes, instead of retail share-classes usually offered for such amounts of investments and which in terms of management fees are much more expensive.
- Two of the ISRP's bank counterparties also agreed in principle to grant UNIDROIT access to *"Comptes sur Livret Association"* (CLA), as a not-for profit, legal entity based in Italy. At the time the banks were contacted, holdings in these CLAs were remunerated at 0.20% and 0.30% per annum, respectively.

5. Hence, considering the agreements the ISRP has already in place with these providers, from the perspective of implementation, there was no foreseeable obstacle for UNIDROIT to access such vehicles and their favourable fund fees or risk-free returns in the case of the savings accounts.

6. Ultimately, at the start of the operations on 30 September 2019, and in agreement with UNIDROIT, the ISRP opened a CLA with CIC for the Fund, with a remuneration rate of 0.30% per annum.

[1] There will be six or seven participants.

B. SIMULATION OF FUND FLOWS AND METHODOLOGICAL ASPECTS

7. The ISRP based its analysis on data provided by UNIDROIT in July 2019, that estimated staff turnover (nil) and contributions over the next three years[2].

8. UNIDROIT initially provided two scenarios, the second one more conservative than the first and having one staff member less (graded P5.4). End-October, UNIDROIT informed the ISRP that for the time being scenario 2 would be the most realistic. This scenario includes six participants in the Plan. What follows below is based on Scenario 2.

9. From the staff participation to the plan communicated by UNIDROIT in scenario 2[3], the ISRP has built three cases to form a view on the evolution of the Fund over the three years following the initial three years (i.e. years 3 to 6):

- A "*Favourable*" case, where all staff would be renewed at the end of their contracts. The overall level of net contributions therefore would remain constant over the full six-year horizon.
- An "*Unfavourable*" case, at the other extreme, where all staff would be replaced at the end of their respective terms and the associated leaving allowances would have to be paid from the Fund after three and, for the Secretary-General, after four years.
- An intermediate scenario called "*Central*" case, where half of the staff including the Secretary General would be renewed, while three staff members would be replaced[4].

10. This led to three different evolution paths of net contributions over the next six years[5].

11. From this, several possible implementations were analysed leading to a recommendation for UNIDROIT, detailed in the next section. The proposal is based on the following assumptions:

- In accordance with the scenario provided by UNIDROIT, no increase of salary was taken into account; the first year contribution was maintained for the subsequent years.
- In line with the principle of prudence, leaving allowances were considered equivalent to the total contribution indicated (instead of 90% when simply applying the scheme's rule).
- The calculation assumed that net new contributions would all be received half way through the year, the portfolio return thus applying to half of the year only.
- The nominal expected return of 5.05% applied is based on the current Strategic Asset Allocation (SAA) of the other CAF members' Funds. It corresponds to the highest achievable long-term rate of return under the latest ISRP asset returns and risk assumptions while maintaining a reasonable asset allocation. This SAA is made up of developed world and emerging markets equities, global government bonds (EUR-hedged), and euro area listed real estate.
- The CLA return was set at 0.20% annually, taking into account that even though the ISRP recently obtained a rate of 0.30%, in the current persisting low interest rate environment the remuneration rates of banks are subject to mostly downward revisions.

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[2] All figures were assumed to be expressed in nominal terms and therefore, accordingly, all figures that follow are expressed in nominal terms.

[3] Originally, the ISRP had retained scenario 1 in its analysis provided to UNIDROIT in August 2019, which included seven participants to the Plan.

[4] Those have been picked arbitrarily (see Annex).

[5] Contributions beyond the six-year horizon were not simulated as this would require too many arbitrary assumptions.

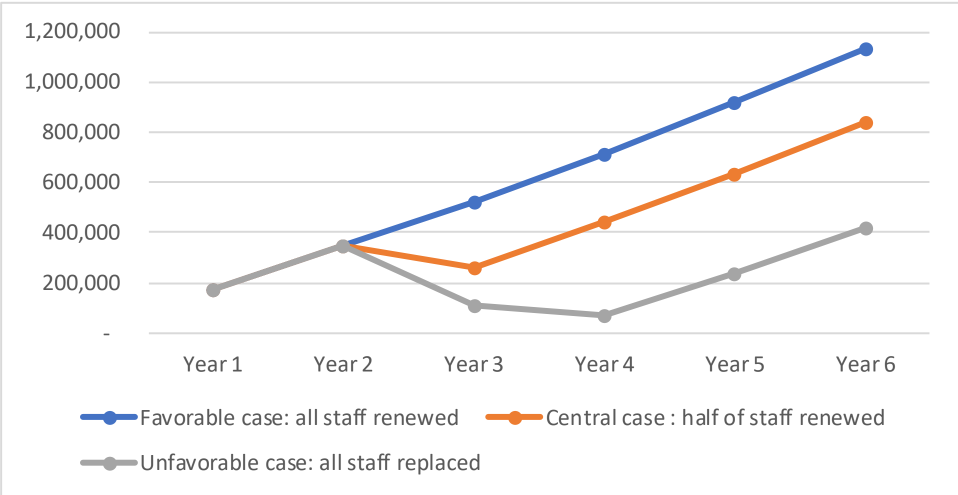
C. INVESTMENT RECOMMENDATION

12. The retained solution is:

- To initially invest the incoming contributions to the Fund in a CLA which yields a low return but bears no financial risk, i.e. complies with the principle of capital preservation.
- In a second stage, as soon as the Fund reaches a total amount of at least EUR 500 000 the assets may be moved towards a portfolio invested in financial markets according to the aforementioned SAA and implemented through selected mutual funds. According to the projections for the first three years, this can be expected to occur in the third year. The expected return of this SAA is 5.05% per year (nominal) over the long term, based on ISRP projections from end-2018 economic data; this number might be subject to future updates.

13. The evolution of the Fund's assets over a six-year horizon based on the above parameters is shown in Graph 1.

GRAPH 1: Fund evolution under various scenarios (6-year horizon)



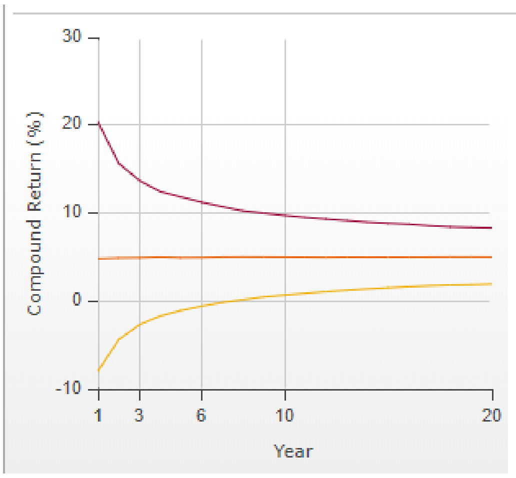
Source: ISRP, based on the UNIDROIT Fund Forecast "Scenario 2", communicated on 26 July 2019.

14. The rationale behind this recommendation in the specific case of UNIDROIT is the following:

a) Initially investing the incoming contributions in a CLA prevents the Fund from the risk of depleting, by avoiding market exposure during the Fund's very first years of existence. Indeed, an SAA targeting 5.05% and coming with a volatility of 8.8%, should be considered in a long-term framework only. As illustrated by the graph below, during the first year for instance, the actual return of such an SAA may range between -7.8% to +20.6%, with a 95% probability, the latter implying that there is a 5% chance of getting a(n) (even) lower or higher return[6].

[6] Based on a log-normal distribution model and a Monte-Carlo projection based on 10 000 simulations.

GRAPH 2: Return projections based on a 5.05% SAA target



Asset Mix	Projected Year	— 95th	— 50th	— 5th
UNIDROIT SAA	1 Year	20.58	4.81	-7.76
UNIDROIT SAA	3 Year	13.69	4.99	-2.76
UNIDROIT SAA	6 Year	11.05	5.02	-0.56
UNIDROIT SAA	10 Year	9.71	5.05	0.61
UNIDROIT SAA	20 Year	8.26	5.05	1.97

Source: Morningstar Direct, ISRP

Therefore, by being invested in a CLA at first the Fund is expected to reach a projected size with more certainty.

b) In the *Unfavourable* case scenario - with all leaving allowances to be paid before the end of year three, and the end of year four for the Secretary General – i.e. the first year of investment in line with the SAA –, the Fund's assets would still be around EUR 62k at the end of year four, assuming the long-term expected return from the SAA still holds in year four (see Graph 1). If this scenario combines with a very negative market environment, i.e. assuming a return of -20% instead in year four, the assets would be around EUR 41k at the end of year four, meaning the Fund would not deplete.

c) Implementation through a CLA also allows UNIDROIT to avoid custodian and performance reporting fees[7], which – being fixed costs while the Fund's size is small – would further weigh on the Fund.

15. The EUR 500k threshold is the level of assets for which the long-term expected return would start to offset all administrative costs. At this level, costs and returns would be roughly equivalent, at around EUR 25k on average depending on the retained scenario. After three years and with at least EUR 500k of available[8] assets, depending on the number of staff enrolled in the Fund and leaving allowances forecast (for which the corresponding provisions shall be left in the CLA), the Fund may take more risk and implement a SAA through selected mutual funds. Despite a – still – low level of assets, the Fund would

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[7] Under this proposed solution, indeed, no custodian fees would be charged for as long as the Fund is not switched to an SAA, and the ISRP would be able doing the performance reporting internally, so no performance reporting fees would be charged either. Consequently, during the initial phase, the only costs to be borne by the Organisation would be the annual ISRP administration costs (EUR 12 000) and the annual CAF Secretariat fee (circa EUR 6 500, as per the MOA).

[8] After leaving allowances potentially to be paid in year four, once all contracts have been either renewed or terminated.

benefit from favourable terms and conditions, allowing a proper diversification and faster development of its asset base.

16. It is to be noted that under this simulation, all administrative fees on top of potential leaving allowances are paid from the Fund. Should UNIDROIT elect to have these fees paid separately, i.e. outside the Fund as discussed with the Organisation, during the first years of the CLA being in place, the Fund's growth profile would be more favourable[9] and allow for a broader implementation of the SAA than when having to keep the related amounts in cash or in a CLA.

D. PROCEDURES FOR TREASURY MANAGEMENT DURING THE FIRST INVESTMENT PERIOD

1. TREASURY INSTRUMENTS

17. The objective of treasury management is capital preservation with limited counterparty risk, through selection of counterparties with good credit ratings and appropriate counterparty diversification. Interest rate risk shall also be minimised via the maturity of the investments.

18. The allowed treasury instruments are the current account held at the custodian bank, the French CLA savings account bank deposits and money market funds.

19. Bank current accounts, saving accounts and deposits should preferably involve counterparties with a minimum rating of "AA-" (or equivalent) at the time of the transaction according to at least one of the three main rating agencies – Fitch, Standard & Poor's and Moody's[10]. If less than three "AA-" or better-rated banks propose zero or positive interest rates, bank deposits may be made with banks:

- rated at least "A-" or equivalent by all three main rating agencies or at least two agencies if a third rating is not available
- listed as "systemically important institutions" by the Bank for International Settlements, and
- having passed the latest Asset Quality Review test from the European Central Bank.

20. The maximum lifetime of deposits should be limited to 12 months.

21. At least three banks shall be consulted at the time of the investment.

2. TREASURY PERFORMANCE

22. The treasury performance is calculated by the Secretariat and reported to the CAF during meetings.

23. Reporting methods will be established with reference to the performance calculated by the Secretariat for other Funds under its administration and international standards. Interest received on the current account and from bank deposits is based on the ACT/360 day count conventions. The treasury performance is computed using the average rates for cash (remunerated at the current account rate), bank deposits (remunerated at term-deposit rates) and deposits on the CLA, converted on a 30/360 basis.

24. The benchmark for treasury is the monthly average of the EONIA (European Overnight Index Average). The annual performance will also be compared to that of euro short-term money market funds.

[9] The Fund would be growing an additional EUR 18.5k per year.

[10] The Secretariat uses the long-term rating.

3. COMPLIANCE WITH THE PROCEDURES

25. Compliance with the Procedures will be overseen by the CAF.

4. DURATION

26. The Procedures will be reviewed as needed.

PROPOSAL FOR APPROVAL BY THE GOVERNING COUNCIL:

1. **The CAF proposes to the Governing Council of UNIDROIT to retain the proposal made in this document to proceed with the investment of the Fund in two stages, i.e. to initially invest the incoming contributions to the Fund in treasury until the Fund reaches EUR 500k, and in a second stage move the assets towards a portfolio invested in financial markets. The strategy to adopt in this second stage will be presented for approval in due time before this change.**
2. **The treasury investments of the first stage shall comply with the policy described in the *Procedures for Treasury Management* set out in this document.**

ANNEX 1: DATA SOURCES

TABLE 1: UNIDROIT'S FORECAST 3Y CONTRIBUTIONS TO THE FUND UNDER TWO SCENARIOS

Scenario 1							
EMPLOYEE	GRADE	SALARY	CONTRIBUTION 37%	FUND CONTRIBUTION PER ANNUM	CONTRACT ENDS	conditions	3 year projection
#1	D2.2	€ 12,101	€ 4,477	€ 53,728	2023	renewable for 5 years	€ 161,185
#2	P5.4	€ 9,008	€ 3,333	€ 39,996	2022	renewable for 3 years	€ 119,987
#3	P4.1	€ 8,232	€ 3,046	€ 36,550	2022	renewable for 3 years	€ 109,650
#4	P4.1	€ 7,096	€ 2,626	€ 31,506	2022	renewable for 3 years	€ 94,519
#5	P3.1	€ 6,473	€ 2,395	€ 28,740	2022	renewable for 3 years	€ 86,220
#6	P2.1	€ 5,086	€ 1,882	€ 22,582	2022	renewable for 3 years	€ 67,746
#7	G5.4	€ 4,036	€ 1,493	€ 17,920	2022	renewable for 3 years	€ 53,760
	TOTALS	**€ 52,032**	**€ 19,252**	**€ 231,022**			**€ 693,066**

Scenario 2							
EMPLOYEE	GRADE	SALARY	CONTRIBUTION 37%	FUND CONTRIBUTION PER ANNUM	CONTRACT ENDS	conditions	3 year projection
#1	D2.2	€ 12,101	€ 4,477	€ 53,728	2023	renewable for 5 years	€ 161,185
#2	P4.1	€ 8,232	€ 3,046	€ 36,550	2022	renewable for 3 years	€ 109,650
#3	P4.1	€ 7,096	€ 2,626	€ 31,506	2022	renewable for 3 years	€ 94,519
#4	P3.1	€ 6,473	€ 2,395	€ 28,740	2022	renewable for 3 years	€ 86,220
#5	P2.1	€ 5,086	€ 1,882	€ 22,582	2022	renewable for 3 years	€ 67,746
#6	G5.4	€ 4,036	€ 1,493	€ 17,920	2022	renewable for 3 years	€ 53,760
	TOTALS	**€ 43,024**	**€ 15,919**	**€ 191,027**			**€ 573,080**

Source: UNIDROIT. For the purpose of this document, ultimately only Scenario 2 was considered.

TABLE 2: 3-YEAR CONTRIBUTION PROJECTIONS UNDER 3 CASES (BASED ON SCENARIO 2)

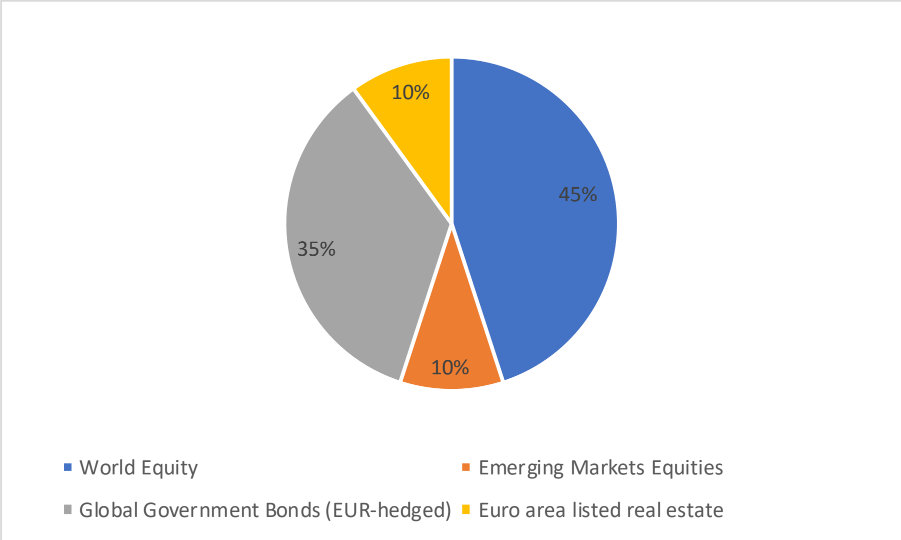
	3 subsequent years' projections		
EMPLOYEE	**Favorable case**	**Central case**	**Unfavorable case**
	All staff renewed	3 staff renewed	All staff replaced
#1	renewed	renewed	replaced
#2	renewed	replaced	replaced
#3	renewed	replaced	replaced
#4	renewed	renewed	replaced
#5	renewed	renewed	replaced
#6	renewed	replaced	replaced

Fund net contributions over 6 years	**Year-end**					
Level of Fund contributions	1	2	3	4	5	6
Favorable case	**€ 191,027**	**€ 191,027**	**€ 191,027**	**€ 191,027**	**€ 191,027**	**€ 191,027**
Central case	**€ 191,027**	**€ 191,027**	**-€ 66,902**	**€ 191,027**	**€ 191,027**	**€ 191,027**
Unfavorable case	**€ 191,027**	**€ 191,027**	**-€ 220,868**	**-€ 23,887**	**€ 191,027**	**€ 191,027**

Source: ISRP

ANNEX 2: STRATEGIC ASSET ALLOCATION

GRAPH 3: UNIDROIT SIMULATED ASSET MIX



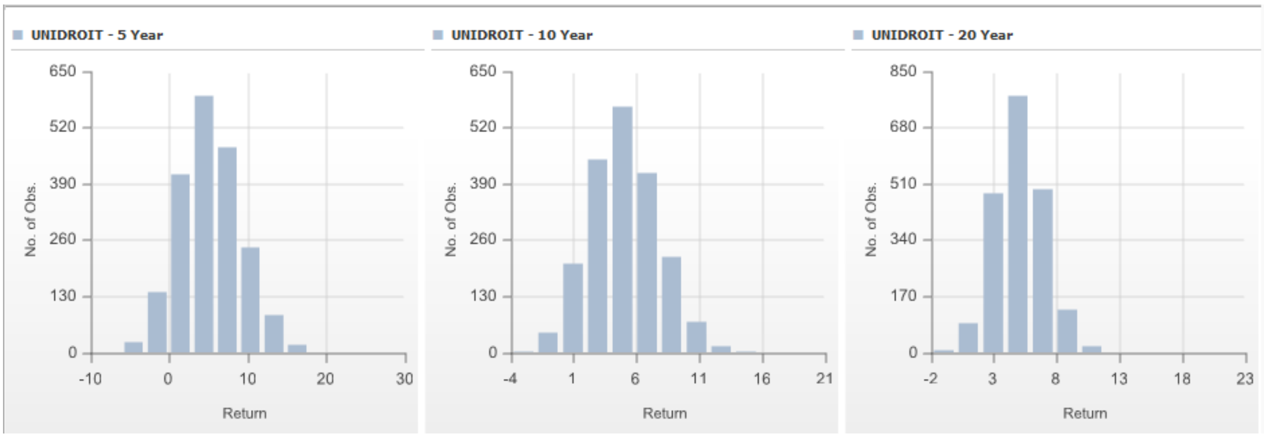
Source: ISRP

TABLE 3: ASSET CLASS LONG TERM EXPECTED RISK AND RETURN

Asset class	Weight	Return	Volatility
World Equity	45%	6.2%	14.0%
Emerging Markets Equities	10%	8.1%	19.2%
Global Government Bonds (EUR-hedged)	35%	3.2%	3.0%
Euro area listed real estate	10%	6.9%	17.1%
Portfolio gross nominal avetage return (geometric)	**100%**	**5.05%**	**8.79%**

Source: ISRP

GRAPH 4: SAA SIMULATED NOMINAL RETURN OVER VARIOUS TIME HORIZONS



Source: Morningstar Direct

CONFIDENTIAL

CAF/WD(2020)14/ADD1 **August 2020**

COMMITTEE FOR THE ADMINISTRATION OF FUNDS
ADDENDUM TO THE REPORT TO THE GOVERNING COUNCIL

ACTION:

This addendum completes the Report to the Governing Council [CAF/WD(2020)14], which first has been presented to the General Assembly of UNIDROIT on 12 December 2019 [CAF/WD(2019)26] after having been approved by the Committee for the Administration of Funds (CAF) in its meeting of 15 November 2019.

As per UNIDROIT's request in view of the Report's presentation to the Governing Council, which shall take place from 23 to 25 September 2020, this addendum provides an update on the Fund's evolution and expected development.

The Committee for the Administration of Funds is invited to take note of the information presented in this document.

COMMITTEE FOR THE ADMINISTRATION OF FUNDS
ADDENDUM TO THE REPORT TO THE GOVERNING COUNCIL

INTRODUCTION

1. This addendum completes the Report to the Governing Council of UNIDROIT [CAF/WD(2020)14[1]] ("main document"), with an update on the situation of the Fund and Fund projections as of the end of June 2020.

UPDATE FROM UNIDROIT

2. On July 2020, UNIDROIT informed the ISRP on the arrival of a new person (General Service staff member) joining the UNIDROIT pension fund on 1 January 2020, with a three-year, renewable contract.

3. The number of participants to the Fund therefore reaches seven active members (including the Secretary General), bringing the annual theoretical contribution to the Fund to EUR 201.4k as from 2020 (from EUR 191.0k expected in the previous report of 2019). UNIDROIT also provided the ISRP with an updated situation of the staff composition and applicable grades, salary and duration of contracts.

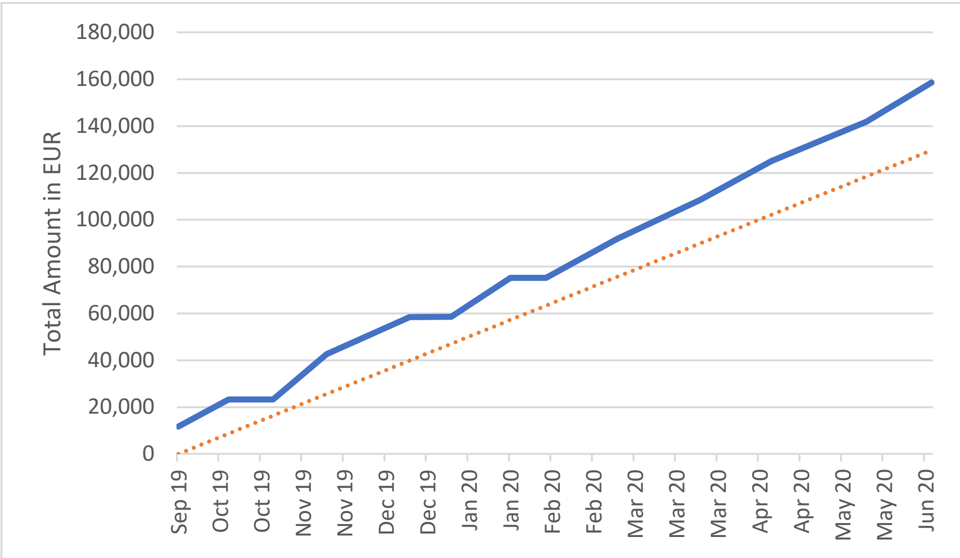
CURRENT SITUATION AND EXPECTED EVOLUTION OF THE FUND

4. At the start of the operations on 30 September 2019, and in agreement with UNIDROIT, the ISRP opened a savings account, alongside a current account for the Fund with Bank CIC (currently rated '*A*', '*A+*' and '*Aa2*' by S&P, Fitch Ratings and Moody's, respectively).

5. Starting with no asset (i.e. value of zero), the ISRP progressively placed the Fund contributions, which started on 30 September 2019, onto the CIC saving account.

6. The below graph shows the evolution of the Fund's assets, held at CIC, from the inception of operations on 30 September 2019, up to 30 June 2020.

1 The document CAF/WD(2020)14 had its origin in the document *CAF/WD(2019)26 Report to the General Assembly*, presented to the Organisation on 12 December 2019.



Source: ISRP, CIC. The dotted line corresponds to the initial simulation of asset evolution, linearised over the year.

7. The Fund's assets stood at EUR 58.5k at the end of December 2019, and at EUR 158.5k at end-June 2020. At the current level of contributions and savings account rate, the Fund's assets are now projected to reach around EUR 192k at the end of September 2020, after one year of operations. This figure is higher than expected in the initial simulation made in the main document, at around EUR 173k at the end of "Year 1".

8. The positive factors leading to this outcome are:

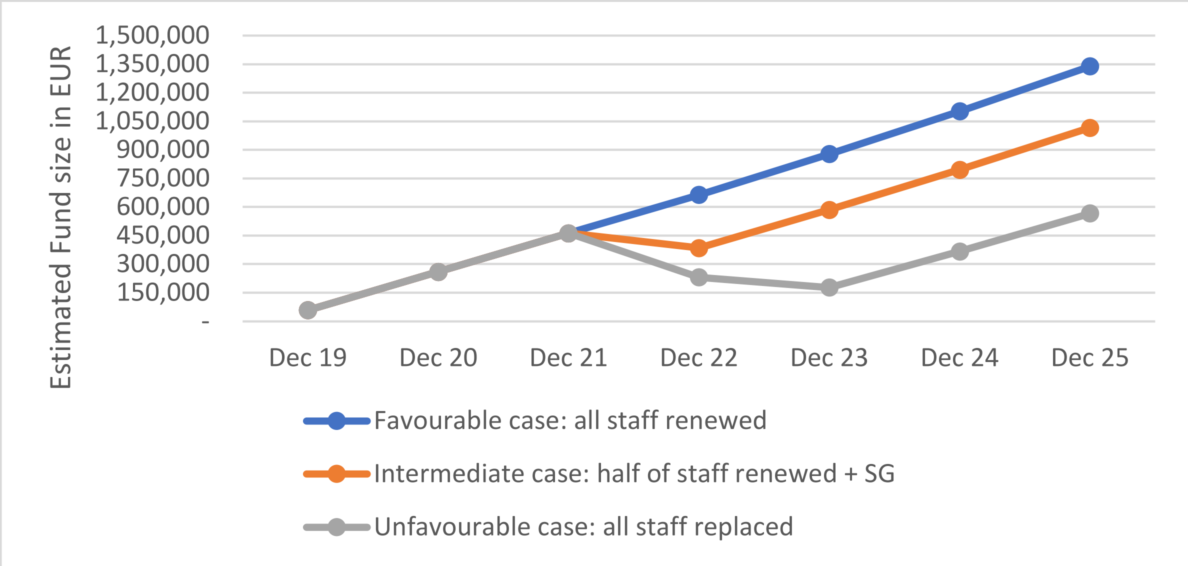
- The addition of a new staff in 2020, increasing the amount of monthly contributions as from January 2020, as well as the updated salary scale and career advancement from last year, which also contributed to a slightly higher absolute contribution level.
- The election of UNIDROIT to pay the administrative fees separately, i.e. outside the Fund, as mentioned in the main document. This allows for a faster development of the Fund assets (under the initial simulation, all the administrative fees – roughly EUR 18.5k per year –, were paid from the Fund).

9. On the other hand, the following factors had a negative impact compared to the initial simulation:

- Two out of the six participating staff started contributing to the Fund in November and December 2019 only, instead of September as simulated. This lowered the overall level of expected contributions for the first three months of the Fund's life.
- As expected, the remuneration rate on the saving account offered by CIC, which was of 0.30% as the time of opening in September 2019, has been decreased to 0.15% as from November 2019, then further down to 0.10% as from February 2020. The ISRP already anticipated a downward evolution and factored in a 0.20% remuneration rate in its initial simulation, yet above the actual applicable rate. Considering the amounts and the time period considered, the impact linked to this change was not significant.

10. The ISRP has updated the simulation presented in the main document, as from the actual situation of December 2019 in terms of Fund's assets, with the new set of participants and contribution levels data received from UNIDROIT in July 2020. It also took into account the fact that administrative fees

are not taken from the Fund, and factored in the change in remuneration rate of CIC on the Fund's saving account. The outcome of this simulation, on the three pre-set scenarios[2] is shown below:



Source: ISRP, UNIDROIT.

11. While being favourable to the Fund development, this update does not bring any material change to the Fund expected shape of evolution and does not modify the recommendation or conclusion presented in the main document (and to the General Assembly in document CAF(2019)26). Under this updated simulation, the Fund is still expected to reach EUR 500k by the end of year 3 (i.e. 2022) in the favourable scenario, albeit quite sooner in the year, at which point a full Strategic Asset Allocation (SAA) implementation (with investments in financial markets) is recommended. It shall be noted that the constitution of pension liabilities/accumulated rights (which is more important in this favourable scenario in which there is no departure) is not simulated here, as it does not affect the Fund's asset evolution during the first years of existence. It shall be considered though, at the time of the actual SAA construction, in an asset-liability management context.

12. In the intermediate scenario, the EUR 500k threshold situation could happen by the end of 2023 (so almost one year sooner than in the initial simulation), and by the end of 2025 in the unfavourable scenario (not attainable within the next 6 years in the initial simulation).

13. It is to be noted that these simulations are very sensitive to the actual turnover (it is assumed here that any leaving staff is replaced immediately, at the same grade level), and the date at which actual leaving allowances are paid, among others. The situation of the Fund is therefore continuously monitored, and the Annual Reports to UNIDROIT, which will be provided and presented once a year to the Organisation[3], shall provide a timely and more accurate view of the actual status of the Fund on all these aspects.

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[2] In the « favourable » scenario, all staff are renewed at the end of their contract, so that the level of net contributions is maintained. In the « unfavourable » scenario, all staff are replaced (in 2023 for the SG and the newly appointed staff, and 2022 for all others). In the « Intermediate » scenario, half of the staff (randomly selected), on top of the SG i.e. 4 out of 7 staff, are renewed at the end of the contract (in the initial simulation, half of the staff including the SG, i.e. 3 out of 6 staff, were renewed).

[3] The next – and first – Annual Report to UNIDROIT will be presented in the CAF meeting of 13 November 2020.